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FM AMEMBASSY TIRANA
TO RUEHC/SECSTATE WASHDC PRIORITY 4092
INFO RUEHTH/AMEMBASSY ATHENS 2875
RUEHBW/AMEMBASSY BELGRADE 2685
RUEHLO/AMEMBASSY LONDON 1170
RUEHFR/AMEMBASSY PARIS 1060
RUEHRO/AMEMBASSY ROME 5226
RUEHVJ/AMEMBASSY SARAJEVO 0404
RUEHSQ/AMEMBASSY SKOPJE 4076
RUEHVB/AMEMBASSY ZAGREB 2908
RUFNPKB/COMUSNAVEUR NAPLES IT
RUEATRS/DEPT OF TREASURY WASHDC
RUEAWJA/DEPT OF JUSTICE WASHDC
RHMFISS/HQ USEUCOM VAIHINGEN GE
RHEHNSC/NSC WASHDC
RUEHBS/USEU BRUSSELS
RUEHVEN/USMISSION USOSCE 2127
RUEHPS/USOFFICE PRISTINA 3377

C O N F I D E N T I A L TIRANA 000358

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DEPT FOR EUR/SCE (BENEDICT,SAINZ)
TREASURY FOR ATUKORALA
NSC FOR BRAUN

E.O. 12958: DECL: 04/07/2016
TAGS: [ECON](#) [EFIN](#) [EINV](#) [KCRM](#) [AL](#)
SUBJECT: ALBANIA'S CENTRAL BANK GOVERNOR: MONEY LAUNDERING
IN CONSTRUCTION

Classified By: Charge d'Affaires Steven Zate
for reasons 1.4 (b) and (d).

¶1. (SBU) Albania's Central Bank Governor, Ardian Fullani, became the first high-ranking GoA official to state what many analysts have assumed for years: Albania's booming construction industry is driven, in part, by "dirty money." In his annual report to Parliament's Committee on the Economy, Fullani noted the continuing expansion of the economy (5.5 percent growth in 2005), low inflation (3 percent) and shrinking budget deficits as evidence of Albania's positive economic development. He expressed concern, however, over perceived overheating in the real estate market, opining that prices were rising at a much faster clip than construction costs. He said that the demand for developed real estate was based on remittances (nearly USD 1.1 billion in 2005) and illegal activities, the flows of which were neither easy to track nor predict. He added that the share of money laundering financing construction projects had reached such levels that interdiction of such flows could endanger the entire economy.

¶2. (SBU) Currently, construction accounts for roughly ten percent of GDP, but is a growing sector and is perceived as an engine for the economy. Fullani contended that more careful scrutiny of the sector was needed because nearly 80 percent of collateral in private banks was based on real estate and construction. Should the real estate bubble burst, Fullani said, the even faster growing financial sector would be damaged. (Loan volume increased 74 percent last year).

¶3. (C) Several major builders we have spoken to are furious at Fullani's statements, claiming that it is not appropriate for him to comment on their sector. They also contend that there is no proof of a money laundering link to the construction industry, and that even if there is, it is wrong

to smear the entire industry if a few builders are facilitating money laundering. Builders and construction material suppliers we have talked to are anxious due to what they contend is a liquidity crunch -- banks are unable to release loan proceeds because the local property registration offices are unable to provide information to the banks on land titles in a reasonable or timely manner. This, they claim, combined with a delay in the construction permitting process -- due mainly to political squabbling -- have caused a slow-down in the industry.

¶4. (C) COMMENT: Fullani's comments are remarkable in that he explicitly linked the health of the Albanian economy at least partially with cash flow from money laundering. The reaction of the builders, while understandable, is probably only correct in the sense that estimates of money laundering flows (as well as remittances) are very difficult to prove, much less attribute to one sector. In our opinion, remittances probably finance the vast majority of small, usually unregulated, single family homes that have come to dominate the suburban landscape around Tirana, Durres and other urban centers in the last decade. There are real questions, however, whether the source of funding for the many hotel, restaurant, cafe and service station projects -- many of which appear to be based on no fathomable business plan and are often vacant -- is hard-earned, smart money. Fullani is expected to address the full Parliament in a few days and may have more to say on this issue.

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